

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: ETRD BR
SUBJECT: BRAZILIAN IMPORT POLICY

1. SUMMARY. DURING THE PAST TWO YEARS, THE GOB HAS
ADOPTED AN IMPOSING ARRAY OF LIMITATIONS ON IMPORTS.
THE MAIN OBJECTIVES HAVE BEEN TO REDUCE PRESSURE ON THE
BALANCE OF PAYMENTS AND OVERALL EXTERNAL FINANCING NEEDS
BY RESTRAINING NON-ESSENTIAL IMPORTS IN SUPPORT OF
LONGER-TERM IMPORT SUBSTITUTION DEVELOPMENT GOALS.
BRAZIL'S IMPORT RESTRICTIONS CONSIST OF (A) DIRECT
ADMINISTRATIVE CONTROLS; (B) PRIOR DEPOSIT REQUIREMENT;
AND (C) SPECIFIC POLICIES TO PROMOTE INDUSTRIAL PROJECTS
THAT WILL RESULT IN IMPORT SUBSTITUTION BY DOMESTIC
PRODUCTION. SUCH IMPORT RESTRICTIONS - TOGETHER WITH
MORE GENERAL COMMERCIAL, MONETARY, AND FISCAL POLICIES -
HAVE CONTRIBUTED TO STABILIZATION OF IMPORT PAYMENTS AT
AN ANNUAL LEVEL OF ABOUT DOLS 12.5 BILLION IN 1974-76
AND A SIMILAR AMOUNT IS EXPECTED IN 1977. MAJOR
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LIBERALIZATION IS NOT LIKELY IN THE NEAR-TERM BUT
SEVERAL FACTORS SUGGEST THE DESIRABILITY OF MOVING
TOWARD GRADUAL DISMANTLING OF IMPORT RESTRAINTS.
THE FOLLOWING IS BASED LARGELY ON A PRESENTATION BY
CONGEN RIO E/C SECTION CHIEF ON BRAZILIAN IMPORT
POLICIES TO JULY 14 MEETING OF COUNTRY COMMERCIAL
ACTION GROUP. (SEE BRASILIA 5987.) END SUMMARY.

2. ALTHOUGH THE GOB HAS NOT EXPLICITLY ACKNOWLEDGED ITS PURSUIT IN RECENT YEARS OF INCREASINGLY RESTRICTIVE IMPORT POLICY, IT, IN FACT, HAS ADOPTED CONSISTENT AND COMPREHENSIVE MEASURES TO RESTRAIN THE LEVEL OF IMPORTS. OFTEN THE GOB JUSTIFIES THE MEASURES ON THE BASIS OF FISCAL REVENUE OBJECTIVES OR A DESIRE TO SUPPORT DOMESTIC INFANT INDUSTRIES. HOWEVER, ONE SIGNIFICANT RESULT HAS BEEN STABILIZATION OF IMPORT PAYMENTS AT SOMEWHAT BELOW THE RECORD HIGH LEVEL OF DOLS 12.6 BILLION RECORDED IN 1974, WHEN THE VALUE OF PETROLEUM IMPORTS INCREASED BY 300 PERCENT AND ALL OTHER IMPORTS ROSE BY NEARLY 80 PERCENT COMPARED TO 1973. IMPORTS SHOWED VIRTUALLY NO GROWTH (0.8 PERCENT) IN 1976 DESPITE AN ESTIMATED GDP GROWTH OF 8.8 PERCENT. GOB EXPECTS IMPORTS OF ABOUT DOLS 12.5 BILLION AGAIN IN 1977 DESPITE PERHAPS A 4-6 PERCENT ECONOMIC GROWTH. THE APPARENT LACK OF ELASTICITY OF DEMAND FOR IMPORTS IMPLIED BY THE CONTRAST IN GDP AND IMPORT GROWTH RATES IS CLEARLY CAUSED BY BRASIL'S VARIOUS IMPORT RESTRICTIONS.

3. THE PRINCIPAL DIRECT ADMINISTRATIVE CONTROL INSTRUMENT IS IMPORT LICENSES OR "GUIAS". WHILE OSTENSIBLY AVAILABLE AUTOMATICALLY, ASSUMING OTHER LIMITED OFFICIAL USE

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REQUIREMENTS ARE MET (E.G. FOREIGN EXCHANGE APPROVAL), COMPLAINTS CIRCULATE OF DELAYS AND EVEN OUTRIGHT REJECTION OF APPLICATIONS. AS NEW INDUSTRIES ARE LAUNCHED, IMPORT LICENSES ARE SOMETIMES DENIED FOR COMPETING PRODUCTS. INDIVIDUAL APPEALS ARE MET WITH (1) THE "INFANT INDUSTRIES" ARGUMENT, (2) CLAIMS THAT IMPORTS OF COMPONENTS WILL MORE THAN OFFSET DECLINES IN ASSEMBLED GOODS, OR (3) DENIAL THAT IMPORT LICENSING PER SE EVEN EXISTS. OUR LONGSTANDING PROBLEM IN THIS RESPECT IS THE EMBRAER PRODUCTION OF LIGHT AIRCRAFT UNDER PIPER LICENSE; OTHER U.S. MANUFACTURERS HAVE BITTERLY CONTESTED THE CUTOFF OF IMPORTS OF COMPETING AIRCRAFT, TO NO AVAIL. WE MAY SEE ADDITIONAL MAJOR PRODUCT LINES COVERED BY SIMILAR ACTIONS IN THE NEAR FUTURE, PARTICULARLY FOR MINI-COMPUTERS (SEE BRASILIA 4590) AND POSSIBLY FOR HELICOPTERS (SEE BRASILIA 4700), OTHER PRODUCTS, PARTICULARLY CAPITAL GOODS AND INDUSTRIAL INPUTS, ARE ALSO BEING PUSHED FOR IMPORT-SUBSTITUTION MOTIVES (SEE RIO A-28 AND A-33).

4. IN ADDITION TO SPECIFIC LICENSES, ADMINISTRATIVE MEASURES ADOPTED IN DECEMBER 1975 REQUIRED ALL IMPORTERS TO REGISTER WITH CACEX AND AUTHORIZED DENIAL OF IMPORT LICENSES IF IMPORTS WERE DETERMINED (A) TO BE FOR SPECULATIVE PURPOSES; (B) TO THREATEN SERIOUS DAMAGE TO NATIONAL ECONOMY; OR (C) TO COME FROM COUNTRIES DISCRIMINATING AGAINST BRAZILIAN EXPORTS. SUBSEQUENTLY CACEX SUSPENDED ISSUANCE OF IMPORT LICENSES FOR SOME 300 (LATER EXPANDED TO 350) ITEMS, MAINLY CONSUMER GOODS (SEE RIO 1724).

5. IN JULY 1975, GOB INTRODUCED A PRIOR IMPORT DEPOSIT EQUAL TO 100 PERCENT OF THE G.O.B. VALUE LIMITED OFFICIAL USE

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OF IMPORT. INITIALLY THE PRIORDEPOSIT WAS FOR SIX MONTHS AND WAS APPLICABLE TO A LIMITED NUMBER OF ITEMS, BUT IN LATE 1975 THE DEPOSIT PERIOD WAS LENGTHENED TO 360 DAYS AND APPLICATION WAS EXPANDED TO COVER MOST NON-CAPITAL IMPORTS AND MANY CAPITAL ITEMS AS WELL.

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SINCE THE DEPOSITS DO NOT EARN INTEREST AND ARE NOT SUBJECT TO MONETARY CORRECTION, THE RESULT WAS AN EFFECTIVE INCREASE IN IMPORT COSTS OF 40-50 PERCENT. IN MARCH 1977 THE GOB EXTENDED THE DEPOSIT REQUIREMENT TO INCLUDE CAPITAL GOODS THAT PREVIOUSLY HAD BEEN EXEMPT IF IMPORTED WITH 5YR FINANCING, WITH THE ONLY EXCEPTIONS BEING IMPORTS RELATED TO CDI-APPROVED PROJECTS OR DIRECT FOREIGN INVESTMENT OR SUBJECT TO A SPECIFIC CACEX WAIVER. PERHAPS OWING TO THE COST IMPACT OF THE REQUIREMENT AND THE RECENT HIGH LEVEL OF EXPORT RECEIPTS, THE GOB SUBSEQUENTLY GRANTED NUMEROUS SPECIFIC EXEMPTIONS FOR VITAL IMPORTS, INCLUDING MANY BY STATE AGENCIES AND PUBLIC SECTOR CONTRACTORS. (SEE RIO A-52.) ACCORDING TO PRESS REPORTS ONLY 23 PERCENT OF ALL IMPORTS ARE NOW SUBJECT TO THE DEPOSIT REQUIREMENT. THIS CONTRASTS WITH 30 PERCENT ANTICIPATED BY THE GOB AND IMPLIES AN ESTIMATED 5-10 PERCENT SHORTFALL FROM THE MONETARY PROGRAM PROJECTIONS.

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6. COMMERCIAL BANKS, WHILE NOT DIRECTLY DISCOUNTING PRIOR DEPOSIT RECEIPTS, ARE KNOWN TO TAKE THEM INTO ACCOUNT IN APPROVING LINES OF CREDIT FOR IMPORTERS. HOWEVER, THE ABILITY OF BANKS TO ACCOMMODATE IMPORTERS IS PROBABLY LIMITED DUE TO THE CURRENTLY TIGHT MONETARY POLICIES. THE PRIOR DEPOSIT REQUIREMENT UNDOUBTEDLY HAS RESULTED IN PASS-THROUGH OF COSTS TO FINAL CONSUMERS AND OTHER DISTORTIONS IN COSTS AND PRICES. HOWEVER MINFIN SIMONSEN RECENTLY EXPRESSED SATISFACTION THAT THE PRIOR DEPOSIT IS CONTRIBUTING TO THE DESIRED CONSTRAINT ON NON-ESSENTIAL IMPORTS. MOREOVER, THE DEPOSITS ARE AN IMPORTANT FACTOR IN OVERALL MONETARY RETRENCHMENT. EXPANSIONARY IMPLICATIONS MAKE UNLIKELY ANY SUBSTANTIAL MODIFICATION OF REQUIREMENT IN IMMEDIATE FUTURE.

7. SPECIFIC POLICIES TO PROMOTE IMPORT SUBSTITUTION PLAY AN IMPORTANT ROLE IN GOB DEVELOPMENT AND IMPORT STRATEGIES. ONE LONGSTANDING MECHANISM IS THE "LAW OF SIMILARS," WHEREBY PROJECTS APPROVED FOR FISCAL INCENTIVES BY THE INDUSTRIAL DEVELOPMENT COUNCIL (CDI) MUST USE NATIONALLY-PRODUCED EQUIPMENT WHENEVER IT IS AVAILABLE (EVEN IF IT IS MORE EXPENSIVE, SLOWER IN DELIVERY, OR OTHERWISE UNCOMPETITIVE WITH AN IMPORT). ANOTHER INCREASINGLY

UTILIZED DEVICE IS THE SO-CALLED "PARTICIPATION AGREEMENT," WHICH IS NEGOTIATED UNDER THE AUSPICES OF THE IMPORT-LICENSE AGENCY CACEX AND WHICH DETERMINES A NATIONAL-CONTENT PERCENTAGE FOR A GIVEN INDUSTRIAL PROJECT. OSTENSIBLY VOLUNTARY, THE AGREEMENT "SPARES" CAPITAL-GOODS BUYERS FROM LIMITED OFFICIAL USE

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SEEKING ITEM-BY-ITEM APPROVAL OF IMPORT LICENSES BY CACEX. INSTEAD, AGREEMENTS ARE REACHED WITH DOMESTIC SUPPLIERS AND THE CAPITAL-GOODS PRODUCERS ASSOCIATION (ABDIB) AS TO A REASONABLE IMPORT CONTENT. SOME OBSERVERS NOTE THAT THIS PROCESS OBLIGES THE BUYER TO OPT FOR A LOWER LEVEL OF IMPORTS AS THE PRICE FOR APPROVAL. (SEE RIO A-50, JUNE 29, 1977.) FINALLY, THE GOB ALSO PRESSES IMPORT SUBSTITUTION BY MEANS OF MONTHLY MONITORING OF FOREIGN TRADE BY THE 600 LARGEST BRAZILIAN FIRMS, INCLUDING STATE-OWNED ENTERPRISES AND MULTINATIONALS. INFORMATION ON TRANSACTIONS IS USED BY APPROPRIATE MINISTRIES FOR JAWBONING INDIVIDUAL FIRMS (WITH THE IMPLIED THREAT OF WITHHOLDING IMPORT LICENSES) TO EXPAND EXPORTS AND TO MINIMIZE IMPORTS.

8. MORE ORTHODOX MEANS OF DISCOURAGING IMPORTS ARE ALSO UTILIZED BY THE GOB. THESE INCLUDE COMMERCIAL POLICIES SUCH AS THE REMOVAL OF DUTY EXEMPTIONS ON A WIDE RANGE OF IMPORTS AND INCREASES IN TARIFFS ON OTHERS IN 1975 (SEE BRASILIA 4959). MONETARY POLICY HAS BEEN PROGRESSIVELY TIGHTENED SINCE LATE 1976 WITH INCREASED LEGAL RESERVE REQUIREMENTS AND LIBERALIZATION OF INTEREST RATES. FISCAL STEPS TO CUT BUDGETARY OUTLAYS ESPECIALLY BY STATE ENTERPRISES HAVE REDUCED IMPORT DEMAND. STATE-OWNED FIRMS ALSO ARE SUBJECT TO SPECIFIC IMPORT "BUDGETS" WHICH ARE DESIGNED TO HOLD DOWN IMPORTS AND DIRECT BUSINESS TO DOMESTIC PRODUCERS.

9. THE CURRENT EMPHASIS ON IMPORT SUBSTITUTION AS A DEVELOPMENT TOOL AND CONTINUING PRESSURES ON THE BALANCE OF PAYMENTS OVER THE MEDIUM-TERM PROBABLY PRECLUDE MAJOR LIBERALIZATION OF THE GOB'S RESTRICTIVE IMPORT POLICIES IN THE NEAR FUTURE. RECENT STEPS TO MODERATELY EXTEND EXEMPTIONS FROM THE LIMITED OFFICIAL USE

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PRIOR DEPOSIT REQUIREMENT PERHAPS REFLECT SOME SON-
CERN ABOUT THE RISKS OF FOSTERING DOMESTIC
INDUSTRIES THAT ARE NON-COMPETITIVE BY INTER-
NATIONAL STANDARDS. THE GOB IS ALSO AWARE THAT A
MORE LIBERAL IMPORT POLICY COULD CONTRIBUTE TO
THE OBJECTIVE OF REDUCING INFLATION. HOWEVER, AT
LEAST THREE FACTORS PROVIDE A CONTINUING RATIONALE
FOR IMPORT RESTRAINTS. FIRST, AN ANTICIPATED
SOFTENING OF COFFEE PRICES AND RISING DEBT SERVICE
OVER THE THE NEXT 2-3 YEARS SUGGESTS THE NEED TO CON-
SERVE FOREIGN EXCHANGE. SECOND, STATE ENTER-
PRISES AND OTHER INDUSTRIES ENGAGED IN HIGH
PRIORITY DEVELOPMENT SECTORS ARE DEMANDING PROTECTION
OSTENSIBLY IN ORDER TO ESTABLISH OPERATIONS

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THAT PROMISE IMPORT SUBSTITUTION IN THE LONG-TERM.
THIRD, ANY SIGNIFICANT LOOSENING OF THE PRIOR DEPOSIT
REQUIREMENT WOULD BE EXPANSIONARY AND THUS INCON-
SISTENT WITH CURRENT MONETARY POLICIES AIMED AT
CONTAINING DOMESTIC LIQUIDITY AND AGGREGATE DEMAND.

10. DESPITE THE APPARENT FIRMNESS OF GOB IMPORT
POLICIES AT PRESENT, THE U.S. SHOULD ENCOURAGE
MODIFICATIONS WHICH WOULD BE OF MUTUAL BENEFIT.
GREATER EMPHASIS ON EXCHANGE RATE POLICY (I.E.

FASTER RATE OF DEPRECIATION) AND REDUCED USE OF ADMINISTRATIVE RESTRAINTS AND BLATANT IMPORT SUBSTITUTION DIRECTIVES WOULD CONTRIBUTE TO MORE EFFICIENT AND COMPETITIVE DOMESTIC INDUSTRIALIZATION. THIS MUST BE A LONG-TERM GOB OBJECTIVE BECAUSE EXCESSIVE AND PROLONGED PROTECTIONIST POLICIES WILL NOT PROVIDE THE BASIS FOR A VIABLE BALANCE OF PAYMENTS OVER THE LONG-TERM. IN ADDITION TO STRESSING THESE POINTS IN FORA SUCH AS THE LIMITED OFFICIAL USE

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IMF AND GATT, THE U.S. MAY FIND BRAZIL SOMEWHAT RECEPTIVE TO THE ARGUMENT THAT A MORE LIBERAL GOB STANCE MIGHT PROMOTE THE CAUSE OF FREE TRADE (AND THUS BRAZILIAN ACCESS TO MARKETS) IN OTHER PARTS OF THE WORLD SUCH AS JAPAN AND THE EEC. FINALLY, OF COURSE, THE U.S. SHOULD CONTINUE ALERT TO ANY ELEMENTS OF THE GOB'S IMPORT POLICIES THAT ARE PARTICULARLY ADVERSE OR DISCRIMINATORY AS REGARDS U.S. EXPORTERS AND SHOULD CONSIDER POSSIBLE POLICY RESPONSES TO SEEK TO ELIMINATE SUCH PRACTICES OR AT LAAST TO MINIMIZE THEIR EFFECTS.
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